

2022 Digital Trends & Investment Priorities

**Adjusting To Rising Customer Acquisition Costs
With A Renewed Focus On Retention
And Customer Experience**

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FOREWORD

Let's recap. In 2020, it was survival mode — weathering temporary closures and accelerating ecommerce roadmaps at unprecedented speed. In 2021, it was the comeback, marked by demand surges and the beginning of a retention race with the deluge of new ecommerce customers. Now, here we are in 2022 — still bullish on growth, but up against the compounded external factors of these last two years.

The next 12 months could be transformational for retail with such ample opportunity for success and digital innovation ahead. How will our industry overcome all its recent obstacles? By restructuring traditional acquisition priorities, reinventing customer experiences, or recalibrating investment in first-party data collection programs? Maybe all of the above.

To explore this further, CommerceNext fielded a survey in partnership with The CommX Assembly, a community of like-minded professionals — chaired by Bloomreach — with a focus on driving the future of ecommerce. The survey tapped top retail and brand marketing leaders to uncover the direction of digital marketing in 2022 by asking:

- Where are retailers and brands making upgrades in customer acquisition, CRM, consumer experience, and other areas?
- What is the industry impact and strategic response to altered KPI performance from consumer privacy changes?
- Are there new revenue streams we can expect to see in ecommerce?

SUMMARY OF RESULTS

What we learned from this survey at the beginning of 2022 is that instead of waiting out the paid search and paid social price increases, pandemic-charged inflation, and supply chain disruptions, retailers are looking to digital marketing for long-term solves.

Heading into a third year of a pandemic, our industry needs continuous data to take stock of what's working, where the market is headed, and which cutting-edge digital solutions could reach their tipping points. This brief report summarizes the challenges retailers and brands face headed into 2022, along with their digital plans to address them — and get ahead. A few key takeaways are:

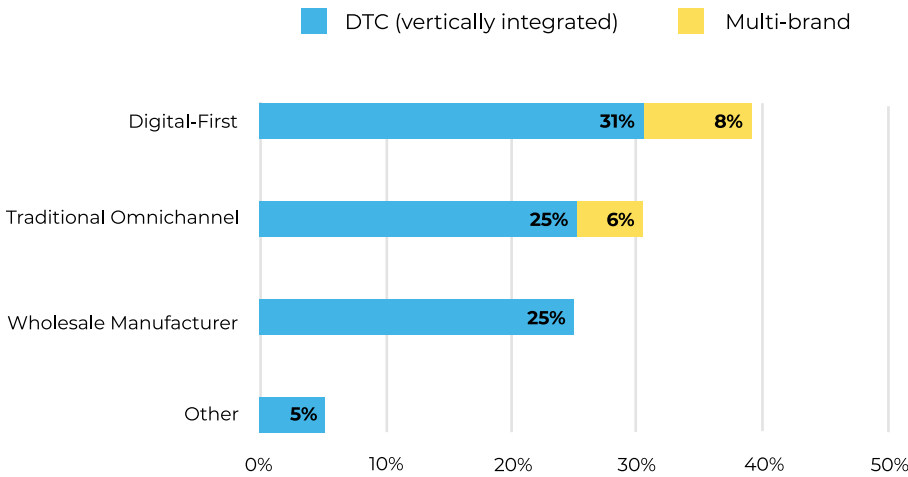
- Despite ongoing challenges, retailers anticipate another strong year of double-digit growth anchored in digital marketing and the experiences they deliver.
- Marketers are still stressed out over the same supply chain, inflation, and talent issues of last year, with growing weariness of declining KPIs in paid search and paid social.
- In response, retailers and brands are again doubling down on retention and investigating new acquisition avenues by: exploring (or already investing in) social commerce, improving site experiences, and launching (or expanding) loyalty programs.

METHODOLOGY

CommerceNext surveyed 118 digital marketers at top retailers and brands of varying revenues and models.

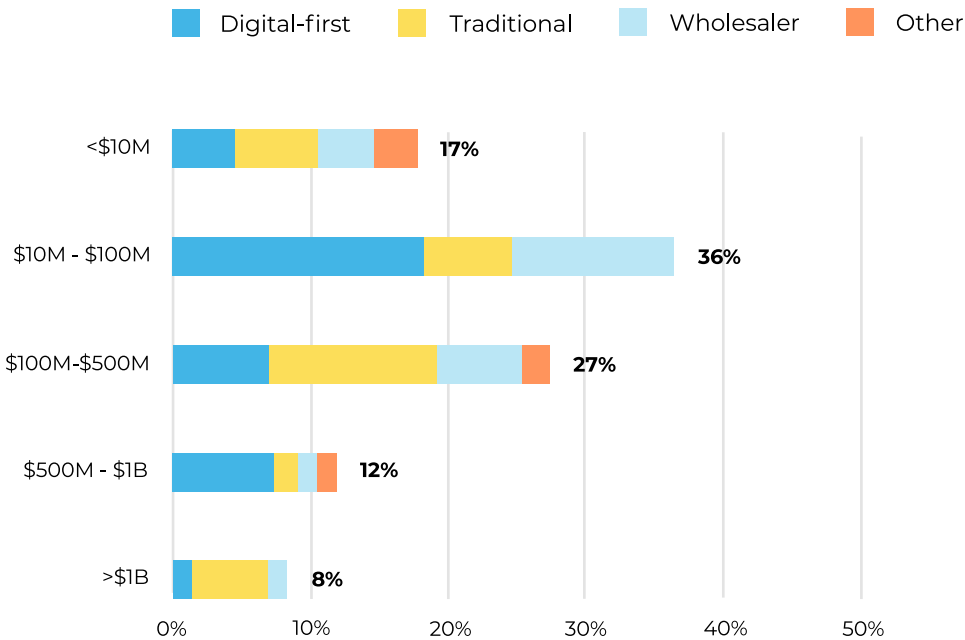
Q: Which of the following best describes your retail model?

Source:
CommerceNext 2022 Digital Trends and Investments, Dec 2021/Jan 2022



Q: Which of the following best describes your online revenue?

Source:
CommerceNext 2022 Digital Trends and Investments, Dec 2021/Jan 2022



I Great Expectations & (Still) A Few Headwinds

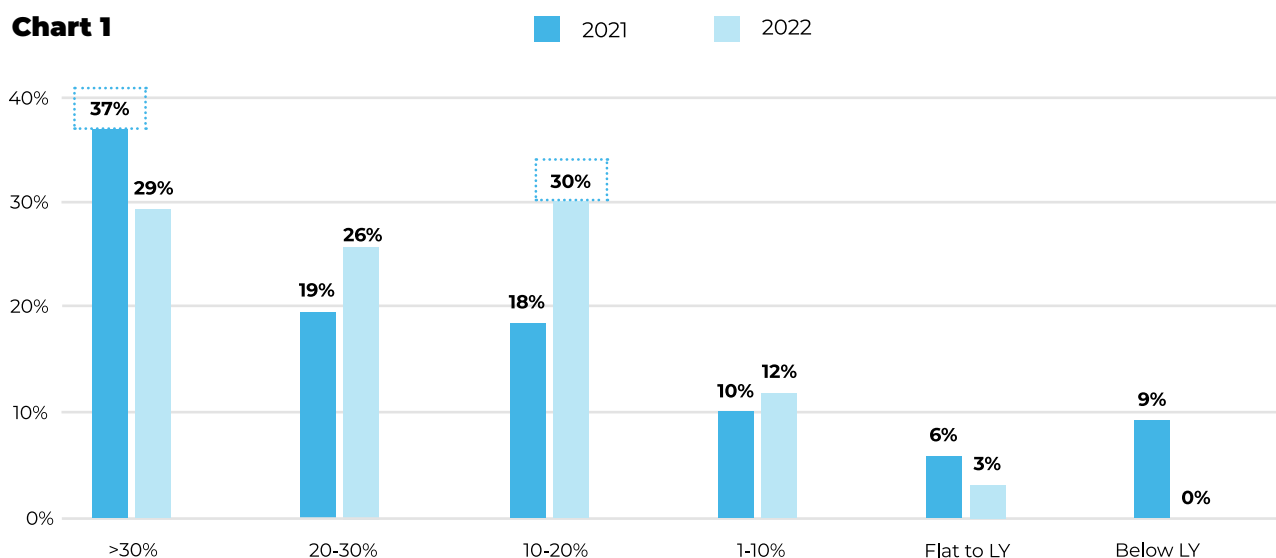
Retailers had plenty to celebrate about their 2021 bottom lines, and signs point to strong returns continuing. Yet, reward is always paired with risk. And, in today's world, it's also paired with inflation. Our industry expects more growth overall, but projections are aptly tempered from 2021 while we fight the same pandemic-fueled battles.¹

Confident In 2022 Growth

Of those surveyed, 56% realized over 20% growth last year. Now, despite inflation and challenges along the supply chain, nearly all (97%) retailers surveyed are confident they will experience some level of growth in 2022.

Q: What was your 2021 sales growth & expectation for 2022?

Source:
CommerceNext 2022 Digital Trends and Investments, Dec 2021/Jan 2022



Many are even expecting double-digit growth again — 55% forecasting north of 20% growth. Others are in the more conservative 10-20% range (see Chart 1 above). Perhaps 2022 will result in higher growth and retailer expectations are a bit more modest going into the year. The reality is that the industry continues to wade in the uncharted territory of a pandemic economy where planning for too much growth could be a risky proposition.

Chased By 2021's Residual Pandemic Effects

The same infrastructure and marketing challenges that emerged last year are again worrying retailers. Chart 2 shows retailers feel the strongest headwinds from supply chain (61%), rising customer acquisition costs (57%), and retaining talent (44%). Later on, we'll see how rising acquisition costs — more than any of these other challenges — have been a central catalyst in forcing ecommerce marketers to redefine and restructure their overall growth strategies.

Q: What do you see as the top risks to achieving your 2022 sales objectives?

Source: CommerceNext 2022 Digital Trends and Investments, Dec 2021/Jan 2022

Chart 2

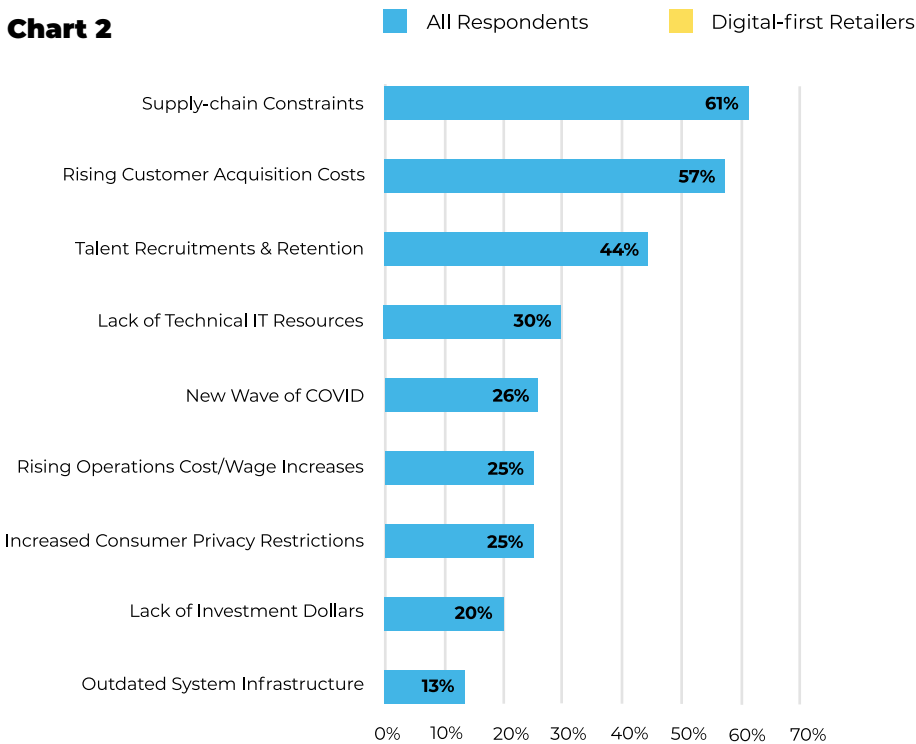
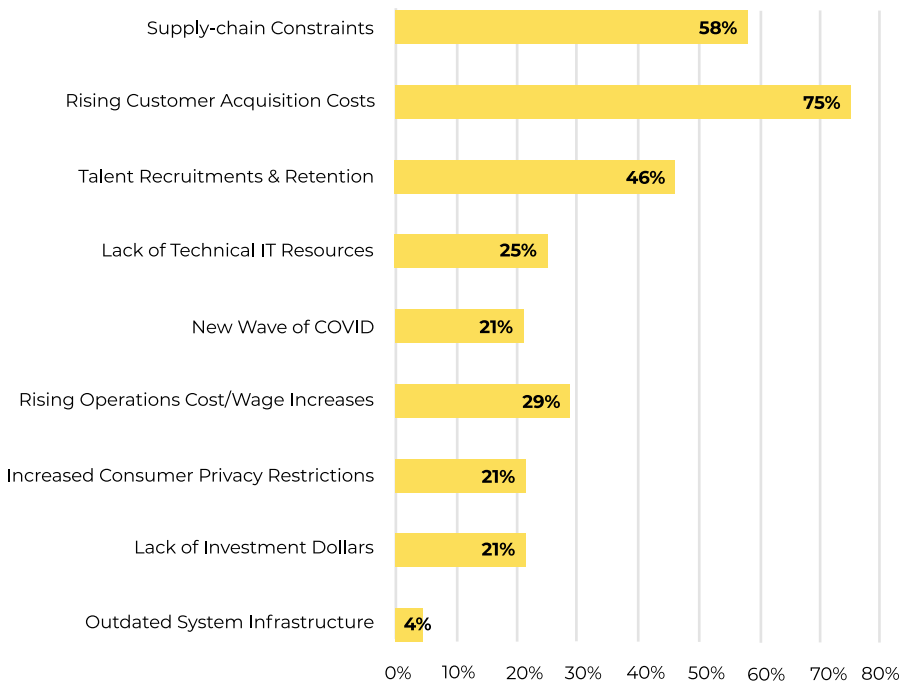


Chart 3



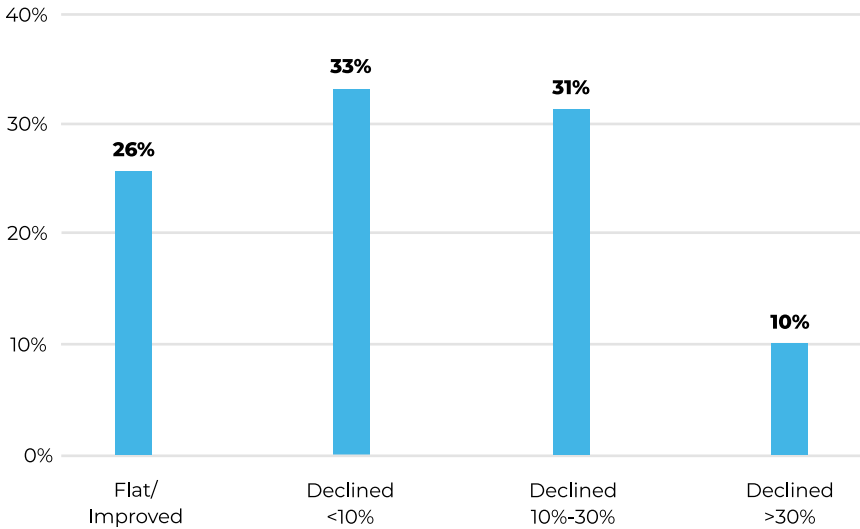
Paying More For Less

Especially for digital-first retailers who historically relied on paid social and paid search for acquisition, those rising costs ascended as their top concern (see Chart 3 above). This isn't a surprise considering how many retailers reported disappointment with their paid social KPIs. Almost three-quarters of respondents (74%) saw declining performance of paid social KPIs after the implementation of iOS 14/15 privacy and tracking changes (per Chart 4). As seen in Chart 5, an even higher percentage (a combined 80% of digital-first retailers) professed some level of concern about their performance.

Q: How are your KPIs in paid social performing after the latest changes in iOS 14/15?

Source: CommerceNext 2022 Digital Trends and Investments, Dec 2021/Jan 2022

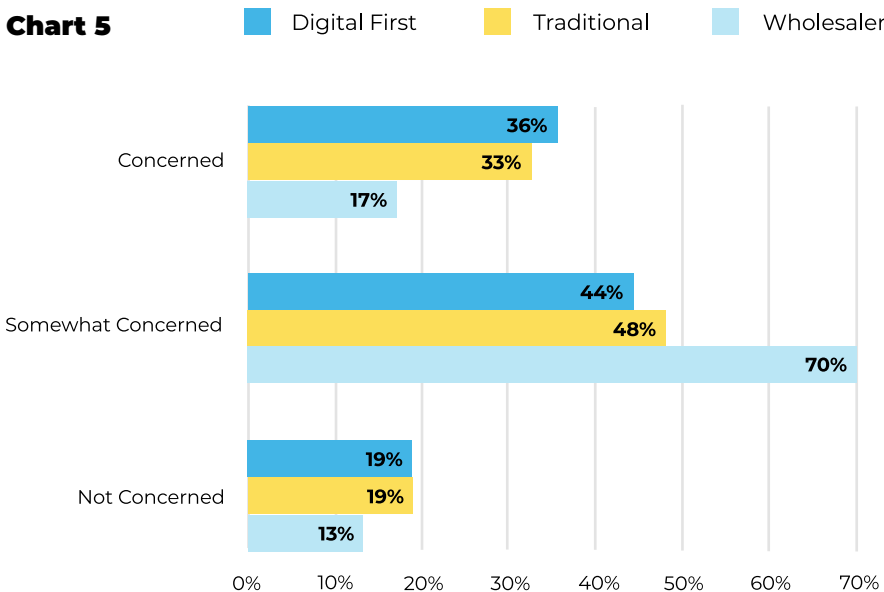
Chart 4



Q: How concerned are you with your KPI performance?

Source: CommerceNext 2022 Digital Trends and Investments, Dec 2021/Jan 2022

Chart 5



KPIs didn't diminish overnight. Rather, marketers noticed a gradual drop as more users adopted the iOS 14/15 changes, pushing retailers to slowly begin testing other channels. A third of those surveyed wrote that they are concerned enough to have already started shifting spend to other channels, such as programmatic TV, influencers, podcasts, and radio.

Those with robust first-party data strategies are in better positions to fuel their customer acquisition effort with relevant custom data, but a majority are caught in the crosshairs and looking for both alternative acquisition avenues and bold new retention strategies.

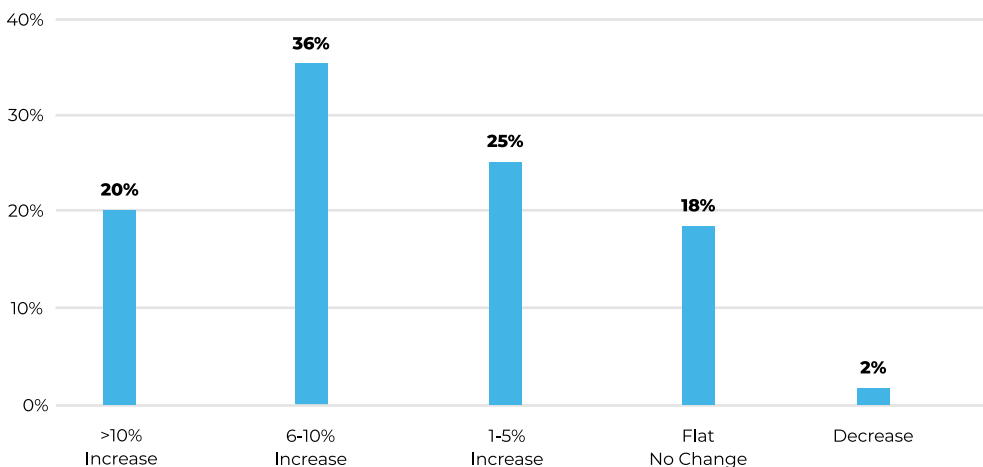
In Short Supply

Unfortunately, supply chain problems didn't end with the holidays. Nearly half of economists warn that both inflation² and supply chain issues won't resolve until the second half of 2022, when inventory catches up and pandemic-fueled demand dies down.³ In response, 81% of retailers surveyed anticipate some form of price increases for 2022, and 56% report a minimum increase of 6% on their core products (shown in Chart 6). What remains unclear in this data is whether retailers will re-up their investments⁴ in the end-to-end structural transformation needed to operate as nimbly as this new era of retail requires.

Q: What level of price increase do you anticipate on your core products?

Source:
CommerceNext 2022 Digital Trends and Investments, Dec 2021/Jan 2022

Chart 6



Talent (Mis)management

“The Great Resignation” also haunts retailers into 2022. Back in Chart 2, we see almost half (44%) of retailers rank talent as their third highest risk to their growth. Although some companies adapted to the changed priorities of the workforce (i.e., remote opportunities, strong cultural values, commitment to sustainability, diversity, equity, and inclusion), workers aren't quite done quitting. America may not see another record-breaking resignation wave, but retailers are interviewing consistently fewer candidates than pre-pandemic, and it's now abundantly clear companies need to offer much more than higher salaries to attract — and retain — talent.

Retention Will Drive Growth & Customer Experience Will Ride Shotgun

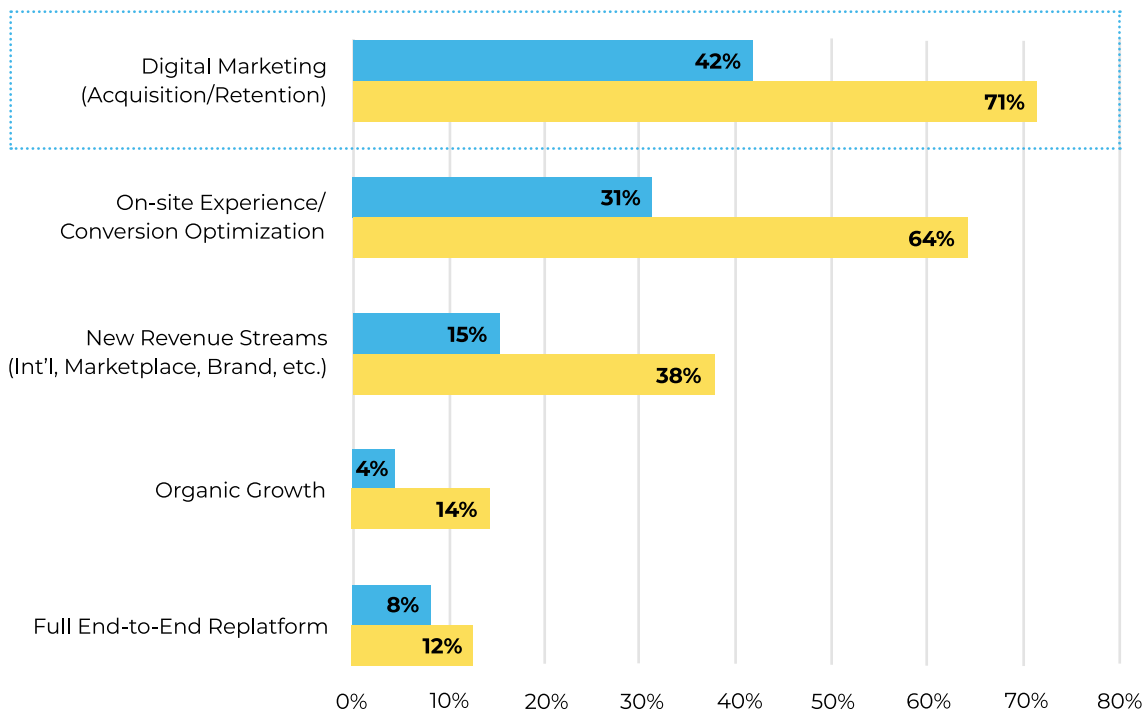
Despite the challenges carried over from 2021, retailers remain bullish on growth, as outlined earlier. They're relying on acquisition and (mainly) retention via digital marketing to achieve it. Among retailers, 42% listed "digital marketing (acquisition/retention)" as having the biggest impact on growth, and 71% listed it as a top two impact (see Chart 7 below). And, in close second: on-site experience, specifically conversion optimization.

Q: For 2022 sales growth, please rank the following initiatives (from biggest impact to smallest impact)

Source:
CommerceNext 2022 Digital Trends and Investments, Dec 2021/Jan 2022

Chart 7

■ Biggest Impact ■ Top Two Impact



As detailed below, although some traditional investments are keeping their place (for now) in marketing plans, most marketers are on the hunt for new and improved ways of finding and keeping customers.

Stuck In A Search And Social Spin Cycle?

Interestingly, paid social and paid search investments remain high, even in the face of their diminishing returns (see Chart 8). Almost half of retailers (46%) are now invested in influencer marketing, but retailers remain hard pressed to scale this channel.

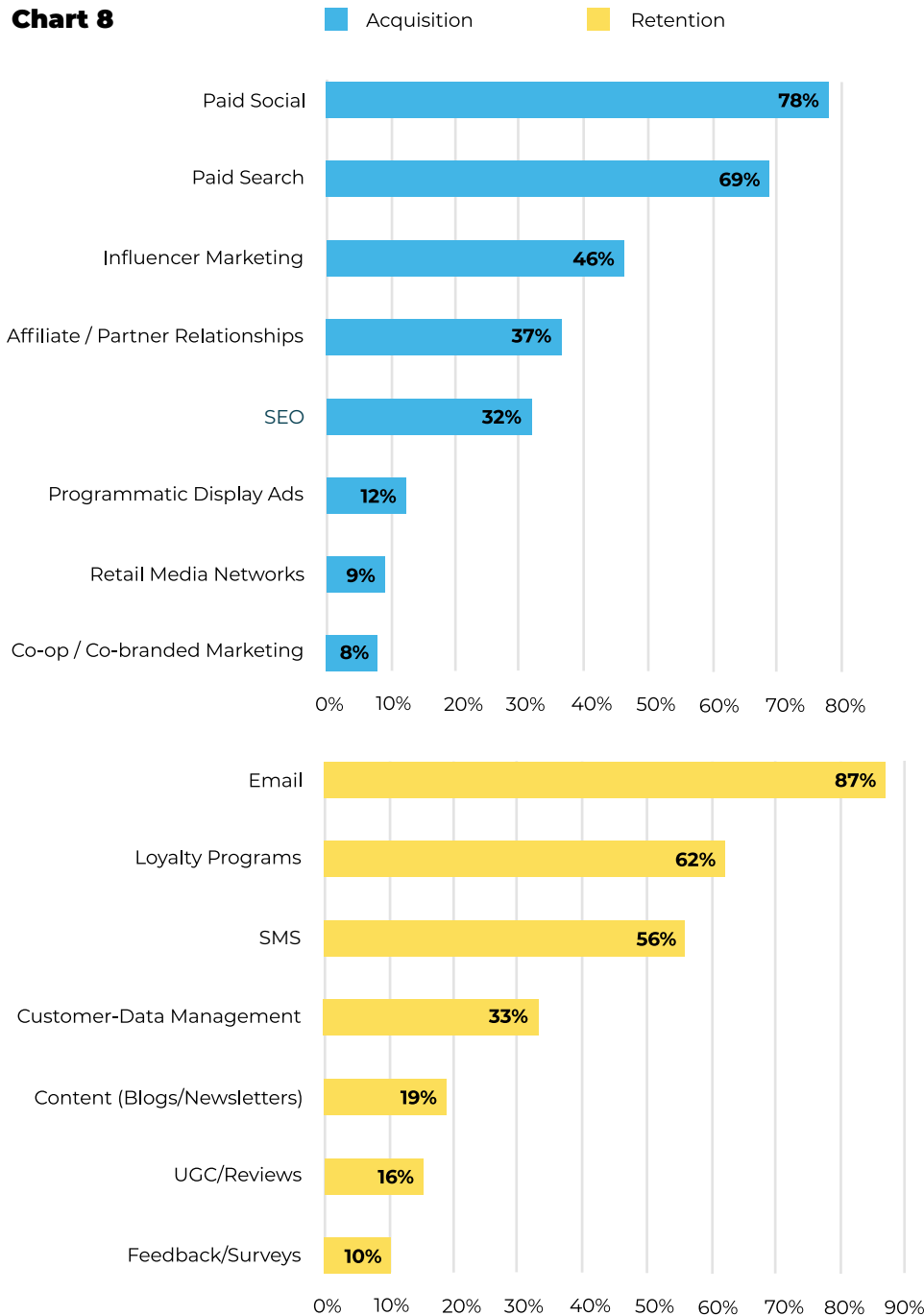


Please select your top investment allocations for new customer acquisition in 2022 (select up to 3).

Source:

CommerceNext 2022 Digital Trends and Investments, Dec 2021/Jan 2022

Chart 8



It seems that for digital marketers, the devil they know is still better than the one they don't. Most are still in the infancy stages of trialing newer mediums like TikTok and livestream shopping to know if the ROI and scale will be enough to shift over more dollars. For now, paid search and social will keep their top spots — but their increasing costs have pushed marketers' focus toward retention and customer experience for the foreseeable future.

Doubling Down (Again) On Retention And Customer Experience

No one plans on abandoning acquisition because of rising costs — but they are extensively reevaluating where their overall resources should go. In the good ol' days of search and social, the higher the investment, the higher the return. That's no longer the case, leaving marketers no choice but to double down on retention (as they did last year⁶), while focusing on first-party data collection programs that can eventually fuel paid social and revive their acquisition KPIs.

For 2022, those investments include: innovative loyalty programs, site experience upgrades, and dabbling in social commerce.

Y'all Come Back Now

As an industry, we're getting especially aggressive on loyalty. We've been toying and tinkering with different types of programs for years. But now, with the retention stakes so high, the majority of retailers (69%) are laser focused on building meaningful relationships with their customers via loyalty. Fifty-five percent of those surveyed are either expanding their current initiatives or launching entirely new programs (see Chart 9 on the next page).

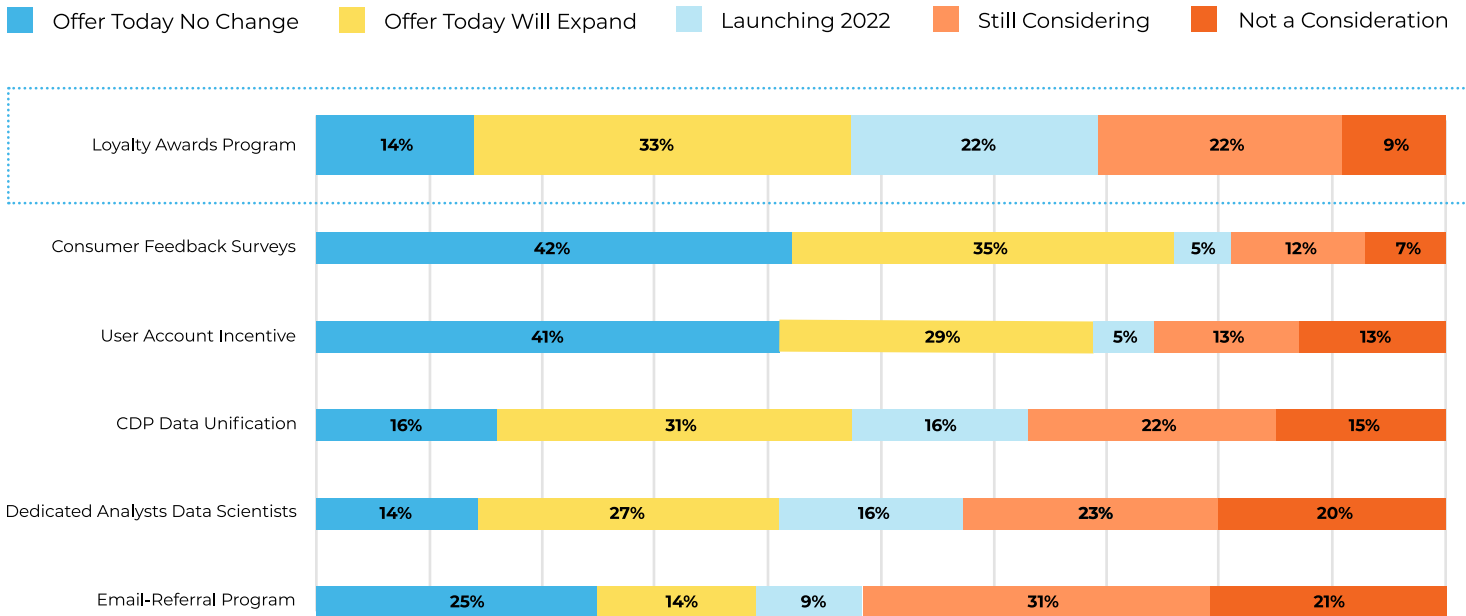


Where are you strategically with the following 1st party data initiatives, given the rise of privacy restriction around 3rd-party tracking?

Source:

CommerceNext 2022 Digital Trends and Investments, Dec 2021/Jan 2022

Chart 9



Although retailers plan to use and expand their simpler customer insight gathering methods, like account creation or customer survey incentives, those are no longer enough to ensure repeat business. Generic point or referral systems aren't enough to stand out with consumers, either. Small brands to large legacy enterprises have realized they must expand their loyalty programs to include incentives like access to more premium offerings and free two-day shipping/returns.

Out Of Site, Out Of Mind

Shucking the buzzy trends of AR, metaverse, and crypto, retailers haven't given up on building the white whale of customer experience to shore up those returning shoppers. To that end, those surveyed named the highest impact, highest priority on-site upgrades as: personalization, navigation/discovery, and search (see Chart 10 below).

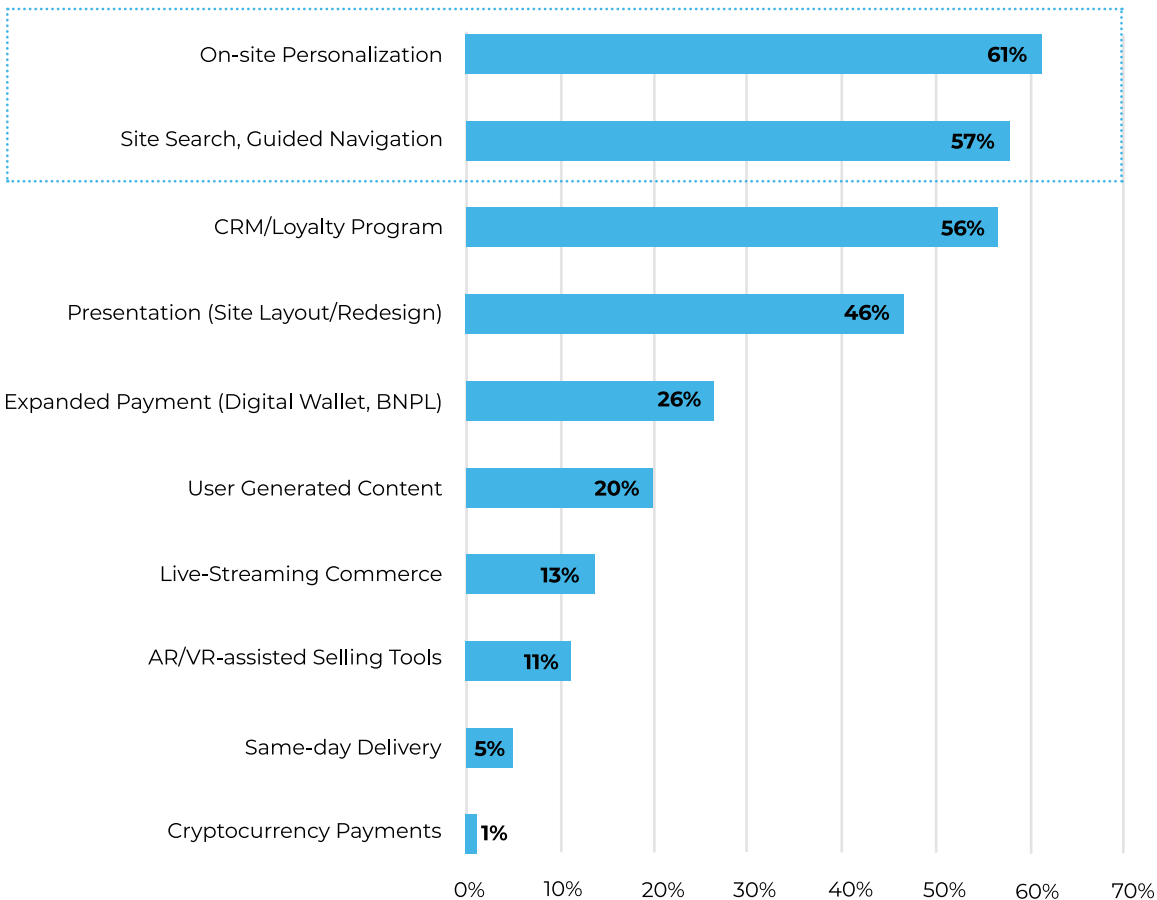


What site experience upgrades have the most potential to drive growth?

Source:

CommerceNext 2022 Digital Trends and Investments, Dec 2021/Jan 2022

Chart 10



Headless commerce is also on the table — for those who can afford it. Per Chart 11 on the following page, 53% of retailers with more than \$500M in revenue see headless as the play for superior site performance and the ability to build custom-tailored customer experiences that can bolster loyalty.

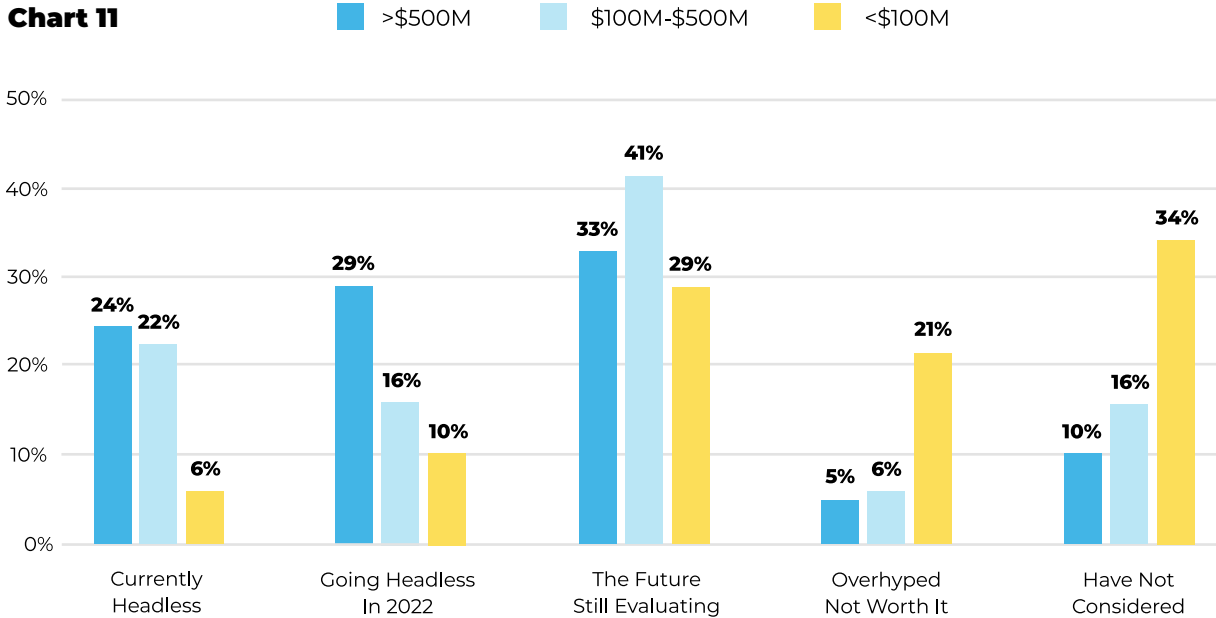


How is your organization thinking about headless commerce?

Source:

CommerceNext 2022 Digital Trends and Investments, Dec 2021/Jan 2022

Chart 11



The players with larger budgets, more robust omnichannel strategies, heftier resources, and, perhaps, a clearer vision on the longer-term payback think headless is a must, or at least deserves serious consideration this year.

Social Butterflies

As Shopify told Forbes, “2022 is the year that we’ll see the social commerce model — deeply embedded in commerce that meets consumers where they are and is non-disruptive to their experience — spread to more platforms and more industries.”⁷

For retailers taking this survey, that proves true. Essentially half (49%) already, or plan to, offer social commerce in 2022, such as shopping on social platforms or livestream shopping. Whereas, 45% are keeping a close eye on those opportunities, waiting for the right time to jump in (see Chart 12 on the next page). After a few years of unfulfilled hype, social commerce may actually get its moment this year with its promise to brands of: (1) more visibility, (2) higher ROI, and (3) better trackability.

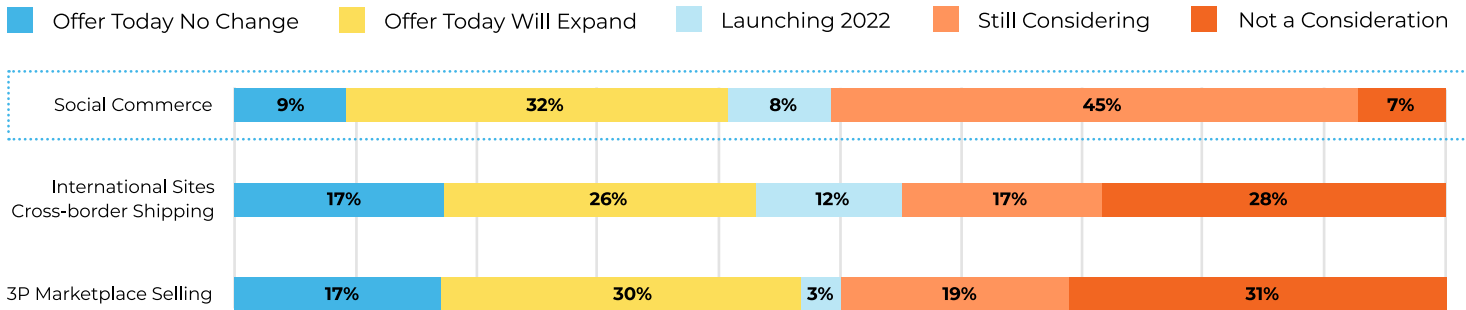


How are you thinking about the following opportunities in 2022?

Source:

CommerceNext 2022 Digital Trends and Investments, Dec 2021/Jan 2022

Chart 12



Social commerce isn't the only new source of growth for retailers. They are also looking at international/cross-border selling, as well as third-party marketplaces. Retailers will be busy with these initiatives in 2022. Forty percent of retailers will be expanding or launching international/cross-border selling. And, one-third of retailers will be expanding or launching 3rd-party marketplace selling.

Switching Gears & Investing in the Future

With paid search and paid social on the rocks, retailers aren't sure about their next acquisition moves. But, they certainly seem confident about their big plays in building robust retention programs and shifting to experience-focused strategies.

Search and social may still garner the greatest share of acquisition budgets, but their effectiveness will continue to decline until retailers have more first-party data to fuel these channels. This same first-party data will also fuel better loyalty and retention programs, as well as better customer experiences. In the meantime, and in the absence of discovering alternative, scalable customer acquisition channels, 2022 will be a mixed digital marketing bag for most. They'll combine some traditional tactics (like email, paid search, and paid social) with newer trends (like headless and social commerce) — all wrapped in the endless quest to create the ideal customer experience (via loyalty and site experience).

Now that the digital marketing paradigms have shifted for good, we have to think about acquisition differently, as a way of reacquiring old customers. Loyalty isn't just a program anymore, but an actual retention tool that should pair with clear KPIs. Social is no longer effective just for content posts and click-throughs for conversion; it needs to be social, with influencers, live streams, etc. to deliver real returns.

Despite the pandemic's challenges, ecommerce's evolution has entered its next innovation era. Investments in improving experiences, through upgrades in elements like navigation and personalization, will define success for not just this generation of digital marketers, but also those of the future.

SOURCES

¹ <https://www.retaildive.com/news/retail-has-more-but-slower-growth-ahead-in-2022-moodys/611624/>

² <https://seekingalpha.com/article/4480291-inflation-persist-2022>

³ <https://www.cnbc.com/2021/12/09/supply-chain-crunch-may-ease-in-the-second-half-of-2022-euler-hermes.html>

⁴ <https://www.supplychaindive.com/news/retailers-tech-investments-supply-chain-faster/600092/>

⁵ <https://www.cnbc.com/2022/01/14/the-great-resignation-expert-shares-the-biggest-work-trends-of-2022.html>

⁶ <https://commercenext.com/2021-the-year-of-the-customer/>

⁷ <https://www.forbes.com/sites/catherineerdly/2021/12/28/four-trends-that-will-shape-retail-in-2022/?sh=698297b6519a>

About CommerceNext

CommerceNext is a community, event series and conference for marketers at retail and direct to consumer brands. Now in its third year, CommerceNext has grown to include webinars, virtual summits, industry research and an online community, in addition to the annual CommerceNext summit and the esteemed CommerceNext Awards program. Inc. Magazine named the CommerceNext Summit one of the Top 5 ecommerce conferences for 2019/2020. To learn more about CommerceNext visit <https://commercenext.com>.



About CommX

The CommX Assembly is a cabinet of hand-selected leaders from across the industry, joined in their mission to define, build, and set best practices for the commerce experience as a discipline.



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